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UNCLAS YEREVAN 000457

SIPDIS

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TAGS: [ECON](#) [ENRG](#) [EPET](#) [AM](#)

SUBJECT: PIPE DREAMS: IRAN-ARMENIA GAS PIPELINE DOESN'T  
PENCIL OUT

[1](#)1. (U) THIS CABLE IS SENSITIVE BUT UNCLASSIFIED.  
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SUMMARY  
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[1](#)2. (SBU) Armenian officials have again proposed a gas pipeline from Iran to Armenia as a way to alleviate Armenia's concerns about the future diversity of energy sources. According to the Armenian Minister of Energy, speaking at a February 10th meeting, Armenia may at some point sign an agreement with the Iranian Oil and Gas Minister to purchase one billion cubic meters of gas two years from now. Other key factors, however, including the price of gas and the size of the pipeline, do not figure into the proposed deal, indicating that there is significantly less to the agreement than it appears and that the pipeline is still more a farfetched desire of the government than a realizable goal. End Summary.

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HOPE DIES LAST: A PIPELINE IS STILL BAD BUSINESS  
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[1](#)3. (SBU) Armenia has long seen a potential gas pipeline from Iran as way to guarantee their energy supply after the inevitable nuclear power plant (ANPP). (Note: A gas pipeline through Georgia currently provides fuel to all of Armenia's thermal power plants, generating 45 percent of Armenia's electricity, 85 percent of all non-nuclear energy. End Note.) But after ten years of discussions the pipeline project is going nowhere: Armenia's demand for gas from Iran is not, in itself, strong enough to justify the expense of building a pipeline. A pipeline only makes sense if the donor community would pay for it (perhaps in exchange for closing ANPP), or if the price of gas from Russia were to rise to such levels that a pipeline would become competitive for private investment.

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UNCERTAINTIES CAST DOUBT ON A QUICK DEAL  
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[1](#)4. (SBU) Although the Iranian Oil and Gas Minister is planning to visit Armenia to consider an agreement on the purchase of gas in the future, the uncertainty of terms suggests that the Armenians do not have a workable plan. Most importantly, the price of the gas remains unspecified. Besides casting a shadow on the validity of the deal, it casts too much doubt on the financial feasibility to justify the large capital outlay (USD 120 million) to build the pipeline. When discussing the pipeline at the recent EU-Armenia Metzamor Working Group (septel), the Minister of Energy expounded on two other possibilities for the pipeline: a larger-diameter 550 km-long pipe up to Georgian border with a yearly capacity of 4.5 billion cubic meters, or another pipeline from Yerevan to Eastern Turkey. Because each these plans would require very different pipelines, in terms of diameter and throughput, and the financial terms would vary widely in each scenario, it is clear that those who are proposing the pipeline are still very much in the ideas stage and are not yet ready to commit resources to the project. When we spoke February 23 with Deputy Minister of Energy Areg Galstyan, in charge of development of the Armenian Energy Sector, he commented that he was not familiar with the details about the proposed pipeline project.

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Comments: Exploring Options  
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[1](#)5. (SBU) Anticipating the inevitable closure of ANPP, Armenia expects to pursue some strategy that reduces its reliance on the gas pipeline through Georgia. While an Iran-Armenia pipeline would be more expensive

than buying Russian gas, it may well be the cheapest among Armenia's other options. But as long as the GOAM is unwilling to pass the extra costs of diverse sourcing on to consumers, and no international donors are forthcoming, there is little or no possibility of an Armenian-Iranian gas pipeline project getting off the ground.

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